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Farm Service Agency

SEPTEMBER 2005

Kentucky FSA Guaranteed Lender News

THE "BEGINNING" FOR BEGINNING FARMERS

Nebraska resident Roy Smith remembers beginning his farming operation after college, a stint in the military and five years of teaching. This was several years after some of his friends from high school began their farming operations. He relates that he started farming with a little money saved while teaching, but not much else in the way of assets, other than his wife and two children.

His parents owned a quarter section of land and his in-laws had 80 acres, so his crop base was less than 240 acres rented from the family. He states that he bought his father's equipment for $1,200 (this is not a typo - we are going back 34 years), which was the market value at the time. He signed a promissory note for the $1,200. The second year of farming, he picked up 310 additional acres from his neighbor when the neighbor took a non-farm job. The neighbor did not sell his farm equipment since most of it was homemade and had little resale value. Mr. Smith remembers the four years using this equipment being a difficult time with frequent break-downs. However, it allowed him to gradually build some equity.

He remembers that he took extra work, as he could, to provide for family living expenses. He did some substitute teaching until he discovered that the small amount of pay received did not offset the lost time away from the farm. He eventually started a grain bin dealership, which he could work around the demands of the farming operation. His wife, Sharon, did substitute teaching prior to taking a full time teaching position. He looks back and observes that all his colleagues had some source of income other than the farm. This was necessary, both to build equity in the operation and to meet family living needs. He also shares the advice that a young farmer should always be a good neighbor to potential landlords, even though their land may never become available to you.

"FARM LOANS ARE GOOD BUSINESS -- WE GUARANTEE IT!!"

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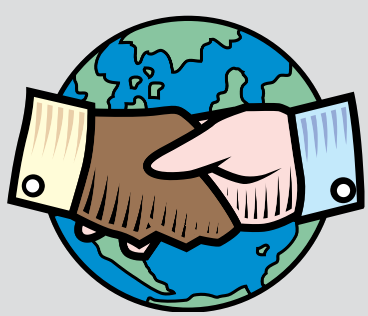


State Executive Director Comments

We are completing the process of paying all eligible parties their first payment under TTPP (the tobacco buyout). Each succeeding year, for nine years, in January they will receive the remaining payments under the program.

Most of you are aware that all or a portion of the TTPP payment may be assigned to another party by the party eligible to receive the payment. This is accomplished by execution of Form CCC-959. It affords the opportunity of assigning from one to ten years of payments (obviously at this point most of the first year payments have already been paid). We do wish to remind you that on page 2 of Form CCC-959, it states in Provision C that the United States' offset of the TTPP payment, due to delinquent debt, will supercede any assignment executed by the quota holder/producer.

Should the assignment be used to secure a loan, it will be subject to application of a maximum discount rate which is published on a monthly basis by FSA. For assignments executed in September 2005, the discount rate is 9%. The maximum discount rate includes the cost of all fees, points or other charges involving the loan. The discount rate will apply unless the loan only has a one-year term or the rate is not greater than that charged non-TTPP borrowers.

There is also a Successor-in-Interest program whereby the financial institution may purchase the payments remaining under the TTPP contract. In this case, the quota owner/producer gives up all rights to the contract and the United States' offset is no longer an issue. The details of this program are being finalized at this time. We do know that the discount rate mentioned regarding the assignments is applicable and that the Successor-in-Interest contract must be executed by November 1, 2005, in order to include the January 2006 TTPP payment. The "TTPP Successor-in-Interest Contract," Form CCC-962, was posted on the FSA website on September 7, 2005. However, the contracts cannot be processed until the financial institution completes Form CCC-963 and receives an assigned number and instructions are issued by the FSA National Office. This number must be shown on each contract the institution signs as the successor and numbers have not been issued at this time.

Jeffery S. Hall
State Executive Director

An entity outside FSA will process these contracts, but the successful bidder has not been announced as of this date. Please monitor our website at http://www.fsa.usda.gov/ky/ for further details as they become available.

THE "BEGINNING" FOR BEGINNING FARMERS
(cont'd. from page 1)

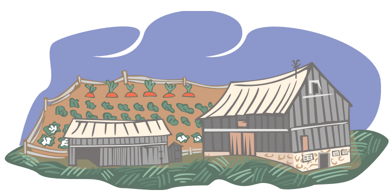
He comments on the belief of some people that you should always receive farm commodity prices which exceed the cost of production. He goes on to say that he does not believe this will ever happen. He says there are more tenants than there are good available farms to rent or lease. He also relates that there will always be some individuals or groups who will pay more for land because they have an economic advantage.

Mr. Smith closes by saying that farmers live in a tough world. Anyone wanting to farm needs to have realistic expectations along with the production and management skills necessary to compete in the farming community. He says that not everyone is suited for a career in farming. To be successful, you must be a survivor!

THE "BEGINNING" FOR BEGINNING FARMERS (cont'd from page 2)

Roy Smith does not relate these observations in a negative sense. He simply is giving his opinion of what it takes to begin a successful farming operation. Some advice is timeless!

Please note that FSA has targeted funds for beginning farmers in both the Operating and Farm Ownership loan categories. We are happy to work with them in achieving the transition to ownership of a farm.



REAL ESTATE APPRAISALS INVOLVING GUARANTEES

The FSA National Office has advised us, that per USPAP, FSA is to be listed as an intended user on all real estate appraisals involving FSA loan guarantees. Please advise the appraisers you utilize on guaranteed loans, accordingly.

In addition, please be aware that some appraisers primarily deal with residential properties. You should be certain that the appraiser utilized for an FSA guaranteed loan is competent to appraise a farm property. Feel free to call Paul Moore at (859)224-7311 if you have any questions regarding our appraisal standards.

NATIONAL INTERNAL REVIEW

We just finished our annual internal review process and overall were quite pleased with the results. There were a few areas of weaknesses concerning our guaranteed loan program which we wish to point out in this forum.

One of our offices failed to complete the required annual review of 20% of its Certified Lender loan files. The 20% figure is pertinent to both Certified and Preferred lenders while we are to review 40% of the Standard Eligible Lender files. These reviews are important on the first two lender categories as to both loan processing and servicing issues as we do not receive much information from these lenders. They are important on the Standard Eligible Lenders to assess the proper servicing of the loan(s).

There was also one case where Form 1980-84, "Modification of Loan Guarantee," was not executed when a guaranteed loan was restructured with capitalization of interest. This form is also required for lender substitutions, consolidation of guarantees or assumption of guaranteed loans by another borrower.

The other deficiencies involved guaranteed loan loss claims. There was one case where FSA failed to respond to the lender's liquidation plan within 20 days of receiving the plan. There may have been some discussion of the plan with the lender, but there was no documentation in the FSA file. There was also one case which failed to contain reports from the lender concerning the progress of liquidation. This is not only required every 60 days while a loan is in default, it is important in the sense that we be aware of the action taken by both our guaranteed lender and the borrower. Finally, there were two cases where estimated loss claims were not filed by the lender when they projected a time of liquidation in excess of 90 days. There was no harm to the Government in these cases as interest was stopped 90 days from the point of a decision concerning liquidation. The lender, however, could have received most of their loss claim payment in both cases by filing the estimated claim versus waiting until after the liquidation of all loan collateral and any other viable means of collecting the debt.

KENTUCKY AGRICULTURAL FINANCE CORPORATION (KAFC)

KAFC is the lending arm of the Governor's Office of Agriculture Policy. They have several programs thay may be of assistance to both you and your customers. The programs include the Linked Deposit Investment Program, the Agricultural Infrastructure Loan Program and the Young Farmer Loan Program. These are all programs with something to offer to some of the agricultural customers across the Commonwealth. We will focus on two of the programs in this newsletter, the Agricultural Infrastructure and Young Farmer Loan Programs.

The Agricultural Infrastructure Loan Program requires that the applicant either have received a Phase II payment, be enrolled in TTPP (the tobacco buyout) or have a current tobacco marketing contract. They must also have received at least 20% of their gross income from farming for the previous two years as evidenced by their federal income tax returns. The program allows KAFC to loan the lesser of $100,000 or 50% of the project's cost for the purpose of acquisition, renovation or construction of agricultural structures that enhance the farming operation's profitability. The current interest rate on the KAFC loan is 2% with the allowance of a maximum charge of another .75% in administrative costs paid to the participating lender who provides the remaining funds. The maximum term for the KAFC loan is the lesser of ten years or the useful life of the project. KAFC's debt will be subordinate to the lien of the participating lender. This is a program that can really lower a farm borrower's effective "blended" interest rate. In some cases it can bring you new borrowers that you would otherwise be unable to assist in their credit needs.

The Young Farmer Loan Program is one in which FSA is specifically involved as a partner. Applicants must have operated a farm for not more than ten years and must not, at the time of application, own farm real estate property which exceeds 30% of the average farm acreage in the county where the operation is located. Again, the applicant must have had recent involvement in tobacco production, including young producers who have grown up on farms having a tobacco quota. The KAFC loans may be for up to $250,000 and if made, will be guaranteed by FSA. They are to be used to acquire real estate and/or to make real estate improvements for agricultural purposes. They are meant to be partnered with the loans of traditional lenders to allow you to hold the first lien position and to assist young farmers in either beginning or expanding a relatively new farming operation. The interest rate offered by KAFC should be slightly lower than current market rates.

Additional information may be obtained from Tim Hughes, KAFC Marketing and Business Development Coordinator, at (502)564-4627, or by e-mail at TimD.Hughes@ky.gov. The KAFC website is located at kafc.ky.gov.

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